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ABSTRACT

The issue of how to finance creation of new space or expansion of current space for day care in New York City (NYC) is the subject of this report. In NYC, there are close to 105,000 children under 6 years of age for whom there is no space in day care programs. Even if there were sufficient subsidies to help parents obtain child care, there would not be enough room for their children in existing programs. The lack of space for day care centers has reached near critical proportions. The first part of this report examines the supply and demand for day care for children under 6, and identifies the nature and extent of the need for new space for programs. Part two offers a brief analysis of the cost of renovating or constructing classrooms. The third and fourth parts explore two types of financing options: those that would not impose direct responsibility for debt service on day care programs, and those that would have a direct effect on center budgets. The final part recommends several policy initiatives. Appendices indicate potential demand for day care, describe Project Giant Step and LYFE, and list participants in the Child Care, Inc. meeting on financing options for new day care space. (RH)

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CAPITAL NEEDED:
FINANCING NEW SPACE
FOR DAY CARE CENTERS

FEBRUARY 1989

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PREFACE AND ACKNOWLEDGMENTS

Child Care, Inc. is a child care resource and referral agency that serves the five boroughs of New York City. We provide information and advice to parents who are seeking child care, technical assistance to child care providers, and research and advocacy on child care issues. During any given week, we receive three to five requests from child care programs that want to open day care centers and cannot find space.

Our effort to help these programs was the impetus for this study. It has become increasingly clear that the shortage of space is one of the significant barriers to the expansion of day care in New York City. The commitment to provide child care exists; the space and the financing to renovate it does not.

This report represents the results of our work on how to finance new space for day care. It is based on research on a variety of financing mechanisms, interviews with program staff, and discussion at a small conference of experts.

All studies of this scope rely on many individuals. We are especially grateful to Patricia White and Kendall Christiansen of the New York Community Trust, and Margaret Ayers of the Robert Sterling Clark Foundation for providing both financial support and thoughtful advice during our year-long project. We also owe thanks to many people in state and local government who were generous with their time and advice. Paul Larsen and Wayne

Goldberg of the Agency for Child Development, Alan Pfeffer of the New York State Housing Authority, Dennis Zeller and Charles Brown of the New York State Department of Social Services, Anna Skhuda of the State Department of Economic Development, and Marge Van Meter of the Senate Child Care Committee deserve special credit.

We also want to acknowledge the contributions of several other individuals at Child Care, Inc. who worked on our report. Annice Alt, the former Director of Technical Assistance, recognized the need for this study and conceptualized the initial project. Susan Cohen, our consultant on this project, gathered much of the data and drafted initial sections of the report. Clarette Wheeler prepared the drafts from start to finish on the word processor, and Colette Mercier provided much techical assistance on the format.

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CAPITAL NEEDED:

FINANCING NEW SPACE FOR DAY CARE CENTERS

Introduction

There are close to 105,000 children under six for whom there is no space in day care programs in New York City. Even if there were sufficient subsidies to help parents obtain child care, there would not be enough room for their children in existing programs.

The lack of space for day care centers has reached near critical proportions. The City was unable to reach its goals for new early childhood services for four-year-olds in Project Giant Step because day care centers could not find affordable space to expand their programs. Subsidized programs for pre-schoolers are full; there are long waiting lists for private programs.

Not-for-profit day care centers, especially those that are part of the publicly funded system, have tight budgets with little room for added expenses. Rents in many areas of the city are high. Renovation is costly. And new construction is often out of the question. Many existing programs simply cannot afford to expand; new programs confront enormous financial exposure.

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The issue of how to finance the expansion or creation of new space for day care is the subject of this study. We have explored a wide range of options to resolve this problem. Some represent existing sources of funding; others have the potential for providing support for these much needed services.

The first part of the report examines the current supply of and demand for day care for children under six, and identifies the nature and extent of the need for new space for programs. It is followed by a brief analysis of the cost of renovating or constructing new classroom space. The third and fourth parts explore possible financing options of two different types -- those that would not impose direct responsibility for debt service on day care programs, and those that would have a direct effect on center budgets.

In the final section, we recommend several policy initiatives. They include an increase in City capital funds for day care centers; a set-aside of State start-up funds for day care construction; the use of any increased State day care operating subsidies for construction during the first year of the allocation; modification of the State UDC small business loan program for on-site day care; use of the New York City direct lease program to help not-for-profit housing sponsors create day care space; allocation of Housing New York Corporation funds for day care

center construction; and creation of a tax on or incentives for real estate developers for the provision of day care space.

These approaches have several strengths. With the exception of the tax on or incentives for developers, they do not require the creation of new programs. Rather, they represent the continuation or the modification of existing efforts. Equally important, most of our suggestions would not initially entail significant new public expenditures. They depend instead on more flexible use of day care funding to meet the need for capital as well as operating costs. The exception is our recommendation for a doubling of the current City capital allocation for day care centers, which would produce close to 1,000 new center spaces.

Together, these recommendations represent an opportunity to forge new partnerships between the public and the private sector. The City, the State, employers, private lenders, not-for-profit housing sponsors and private developers, day care providers and advocates -- all will need to work collaboratively if these initiatives are to succeed. Such a commitment will require trust, cooperation, and a willingness to use creative approaches. We believe that New Yorkers who are concerned about children will rise to meet this challenge.

Part One:

The Need for New Space for Child Care Programs

The demand for child care is growing in New York City. There are not enough spaces for young children who need full-time out-of-home care while their parents are at work, in training, or in school. Most of the day care in the city is provided by not-for-profit agencies, which operate on tight budgets with little room for increased expenses. They cannot afford the high rents in many neighborhoods. Nor can they afford to renovate space for a day care center. New construction is often out of the question.

This lack of affordable space represents one of the primary barriers to the expansion of day care services. Even if there were sufficient subsidies to help parents obtain child care, there are not enough day care centers to meet these needs. What is the extent of this problem?

Part I addresses these issues. The first section examines the issue of the demand for child care for children under six, while the second section discusses the current supply of full-day services. In the subsequent sections, we present an estimate of the

total need for new spaces and explore the possibility for expansion of existing programs.

I. The Demand for Child Care

In 1980, there were approximately 560,000 children under six in New York City. They represented 8% of the total population of 7,071,639. [1] Although the population as a whole is expected to decline over the next fifteen years, the number of children is expected to grow. The Department of City Planning projects that the number of children in the birth to four age group will rise slightly by 3.6% by the year 2000.[2]

How many children under six need child care? It is difficult to develop precise estimates of the need because the data are limited and derived from different sources. The broadest measure consists of two components. The first is all children whose parents are looking for work, working or enrolled in school. This can be regarded as current demand. The second component includes children whose parents would engage in those activities if care were available. This can be regarded as potential demand. In general, estimates of the need for child care do not take into account potential demand. To this extent, they underestimate need because they exclude those children whose parents would work if child care were available (Appendix 1).

Two government agencies have estimated the need for child care in New York City. One is the New York State Council on Children

and Families, which conducts research on a variety of issues for the Governor's Office.[3] The other is the City of New York Agency for Child Development (ACD), the agency responsible for funding the City's subsidized day care system. We have used ACD's estimates for this study because they are based on the number of children who are eligible for publicly funded day care services. Eligibility is based on two kinds of criteria -- social and financial. Social criteria include employment, education and training as well as illness or incapacity of a parent. Financial eligibility is limited to families with incomes at or below 280% of the federal poverty level.[4]

Current Demand

The ACD definition of demand begins with parents' availability. It assumes that there is a demand for child care if the parents are working, looking for work, enrolled in training or studying in an approved program. It excludes children in households where there are other adults who are not working and not in school, because these adults may be available to take care of children. And it excludes families whose incomes do not meet eligibility standards.

ACD estimated that 151,091 children under six were eligible and in need of care in 1987 [5] (Table 1). Of the total, 73,000, or 48%, were under age two. The remaining 78,000 were pre-schoolers between the ages of three and five. This estimate was based on an

TABLE 1

ESTIMATES OF NEED FOR CHILD CARE FOR CHILDREN UNDER SIX, NEW YORK CITY

Agency for Child Development

	1987	1988
TOTAL	**151,091**	**151,280**
Bronx	29,622	29,754
Brooklyn	60,553	60,311
Manhattan	28,155	28,443
Queens	29,343	29,333
Staten Island	3,418	3,439

SOURCE: For 1987 and 1988 estimates, Needs Assessment for Public Day Care 1987-1990, Research and Analysis Unit, Agency for Child Development, September, 1987.

extrapolation of the number of children under six who would have been eligible for services in 1980 if current income ceilings, deflated to 1980 dollars, had been in effect.

These numbers may be conservative for two reasons. First, ACD uses Department of City Planning (DCP) projections for birth and death rates as well as migration across communities to estimate the population of children in the city. These projections are not necessarily useful for short-term planning nor are they necessarily accurate. Moreover, ACD based its assumptions for parents' availability on 1980 national labor force participation rates for women with young children. These rates have grown dramatically in the past seven years in the city as well as across the nation, and have had a significant effect on the number of young children who need child care.[6]

II. Supply: How Much Space is Available?

There are 46,300 full-time spaces for children under six in licensed child care programs in New York City.[7] These spaces are in different kinds of programs, of which there are two primary types: day care centers that offer full-time (ten hour) services for classes of fifteen to twenty children in group settings, and family day care homes that offer full-time services for up to six children in the provider's own home. Full-time spaces are also offered in group family day care homes which provide services for

a maximum of twelve children, but there are very few in New York City.

The vast majority of full-time spaces -- 40,500 -- are available in day care centers. These account for fully 87% of the total. The remaining 5,800 spaces are offered in family day care homes. Two thirds of all full-time spaces in licensed day care centers and family day care homes combined, or 31,000, are publicly subsidized and limited to families who meet ACD's financial and social eligibility requirements for services.

In addition to these full-time spaces, 103,000 part-time (three hour or school-day) spaces are offered in several different types of licensed child care and early childhood education programs. These include kindergarten programs for five-year-olds as well as programs for pre-schoolers (three-to five-year-olds) in public schools, Head Start, day care centers, and private nursery schools. Spaces for five-year-olds in public school kindergarten classes represent the largest number of part-time spaces in the City. In 1987, 61,000 children were enrolled in these school-day classes. In addition, 23,000 five-year-olds were enrolled in parochial or independent school kindergarten programs on a part-day or school-day (six hour) basis.

III. Unmet Need

In New York City, as in other communities across the nation, the demand for full-time licensed care is far greater than the

supply. Citywide, there were 46,300 licensed full-time spaces for the 151,091 children under six who needed child care. (Table 2) Approximately 105,000 children under six who needed care could not be served.[8] At a conservative estimate of 20 children per classroom, 5,200 additional classrooms are needed to meet the demand. This represents more than double the number of existing classrooms. Even if classrooms were only provided for pre-schoolers between the ages of three and five, the number would be large -- 2,600 classrooms.

The shortage is more acute for subsidized spaces. There were only 31,000 full-time subsidized spaces in 1987, room for only one in five children. Shortages of subsidized care were particularly severe for certain age groups and for certain communities. The problem for infants and toddlers (from birth to two years) was most dramatic: there were 3,200 spaces for the 73,000 children who needed care, a capacity for fewer than 5% of the eligible children.[9] The gap is smaller for pre-schoolers (ages 3-5). In 1987, these programs could serve 35% of the 78,000 children who needed care.

The shortages of care are unevenly distributed across the city. Some communities can serve fewer than 5% of the eligible pre-schoolers, while others have only a small number of unserved children.[10] In part, the gap between demand and supply on a community level can be attributed to the existing locations of publicly subsidized day care and the demographic changes in many

Table 2

Comparison of Demand for and Supply of Full-Time Licensed Day Care New York City, 1987

	Total	Subsidized
Children in need	151,100	151,100
Spaces available	44,600	31,000
Percent of children covered	31%	20%

SOURCES: For children in need, Need Assessment for Public Day Care, 1987-1990, Research and Analysis Unit, Agency for Child Development, September, 1987; for spaces available, A Child Care Primer, Child Care, Inc., 1988, in publication.

communities. In some communities such as Washington Heights and Highbridge, the population of eligible families with young children has grown dramatically, far outpacing the available number of spaces.[11] In others, such as Fort Greene and Chelsea/Clinton, the number of families with young children has declined or the income of many families has exceeded eligibility levels. As a result, the pool of children eligible for ACD services has shrunk, reducing the demand for child care in subsidized programs.

IV. Room for Expansion

Can the capacity of existing programs be expanded? Is there room in these centers to create more space to care for additional children? The answer is not encouraging. Independent private centers may be able to add classroom space. But these changes will only have a small, incremental impact on the problem. According to ACD, there is virtually no room to expand capacity in the existing publicly subsidized system. What about space in other institutions such as schools or churches?

The Public Schools

The public schools represent a possible option for space for day care. Underutilized schools might provide available classroom space. According to the Division of School Buildings, 20 districts had schools with excess capacity because they were underenrolled.[12]

But the Board of Education plans to use virtually all

available space to fulfill the early childhood agenda that was articulated by its Early Childhood Education Task Force. Among these initiatives are the expansion of Project Giant Step (PGS), additional Living for Young Families through Education (LYFE) centers, and reduced class size in the early grades (Appendix 2). All of these programs will require additional space that might have been available for day care. PGS alone, for example, will need classroom space for some of the estimated 31,000 four-year-olds citywide who do not have access to early childhood programs.[13]

Where will the Board find space for these programs? To meet immediate needs, the Task Force on Capital Financing and Construction suggested a broad search for space, even outside its own buildings. It proposed that the Board consider:

> ". . .appropriate indoor and outdoor space, which might be found in: elementary schools, prefabricated buildings, store fronts, loft buildings, libraries, houses of worship, housing projects; high schools and junior high schools with appropriate space to share; and empty lots in high-need areas on which prefabricated buildings could be placed."[14]

It also recommended funding for a large construction program to relieve overcrowding. The City approved some of these proposals in the Board's Capital budget which includes $3.7 billion for 41 new schools, of which half will be elementary schools with early childhood centers.[15]

Other Institutions

To try to determine if a substantial number of additional children might be easily served in other institutions that now house day care or other early childhood programs, we contacted various religious organizations as well as the YMCA and the YWCA. Some religious denominations or organizations maintained lists or directories of affiliated schools and/or day care centers, but they did not have a systematic way of identifying new space. The Y's responded in the same way. They could provide data on capacity by location, but they did not have detailed plans for projected expansion.[16] It is unclear if these organizations will be able to provide significant new resources for child care.

Potential Loss of Space

It is possible that the existing supply of day care in day care centers may decline in the next two years. Rising rents may force some centers to close as nearly occurred this summer in two well publicized cases.[17] A more serious problem is posed by the expiration of leases in a large number of ACD programs that rent space from private landlords.

A total of 141 ACD day care programs are housed in buildings which the City leases directly from private landlords.[18] In general, these are large programs which serve between 95 and 200

children. The leases were signed in the late 1960's and early 1970's for terms of 15 to 20 years. Because many sites included excessive ancillary space (store rooms, basements, hallways), the rent is relatively expensive on a cost per child basis.

The majority of these leases, 124 of the 141, will expire between 1991 and 1994. Only four leases -- all with churches -- have run their full term. (One other center had a fire, and the program there has been terminated.) The City has renegotiated leases with three programs and is negotiating on the fourth.

Renewal of the direct leases requires approval of the ACD and the Office of Management and Budget (OMB). Although ACD does not have fixed criteria, it recommends renewal on the basis of need. This includes the demand for care at the particular center as well as at other centers in the neighborhood, waiting lists, and demographics of the area.[19] We expect that ACD will assess renewal of all the leases as they come due, after terms, including necessary repairs, are renegotiated.

Like ACD, OMB does not have fixed criteria for the renewal of these leases.[20] Thus far, OMB has approved the terms at the first four sites. However, there may be situations in which the City may regard the rent as too high or in which the landlord may choose to terminate the lease. For example, some of the commercial landlords who hold leases may have prospective tenants who would pay more than the City would, especially for buildings in areas that have

gentrified in the past twenty years. In those cases, the space would be lost to day care. If this occurs, the impact would be significant because each program serves such large numbers of children.

V. Summary

According to ACD, approximately 151,000 children under six needed full-time day care in 1987. This estimate excludes the children of working parents whose incomes do not meet eligibility requirements, and it does not take into account the increase in the number of working mothers since 1980.

In 1987, there were 46,300 full-time spaces for children under six in licensed child care programs. Of the total, 31,000 were publicly subsidized spaces. On a conservative basis, 5,200 new classrooms would be needed to serve the 105,000 children who lack care. At an average of five classrooms per program, this translates into a need for approximately 1,000 new programs.

The shortage of physical space for day care is serious. There is little space in the public schools; available classrooms will most likely be allocated for the Board's own programs. There may be some potential for expansion in traditional day care sites such as churches or Y's, but it is difficult to identify it systematically. How can this problem be solved?

Part Two:

The Cost of New Day Care Centers

Additional day care space will require the expansion of existing programs or the creation of new centers. In Part One we indicated that there is limited room for incremental expansion. Here we focus on the cost of rehabilitation or construction of space for day care centers.

I. The Cost of Renovation or Construction

There are two possible approaches for creating new classroom space. One is to renovate existing space and the other is to build new facilities. Renovation or construction is costly and requires capital. Most day care centers do not have such resources nor can they afford to borrow these funds. In most cases, their revenues from fees are not high enough to cover the debt. This is a particular problem for subsidized day care centers that depend on City reimbursements for services. The reimbursement rate for occupancy -- for rent -- is fixed, and will not necessarily cover debt for renovation or construction costs.

Renovation

How much does renovation of existing space cost? ACD uses an estimate of $90,000 for a classroom for 15 to 20 children in a two classroom center.[21] Most programs would need to borrow funds to pay for such renovation. Because subsidized programs are reimbursed on a per child per week basis, we have calculated the cost of borrowing $90,000 in these terms. We assume that centers will obtain mortgages for 15, 20, or 30 year terms at tax-exempt rates.[22] These time periods reflect the prevailing notions of the life span of day care centers and other public service buildings.[23] To obtain a per child per week rate, the standard way in which child care costs are expressed, we have reduced monthly mortgage payments (fixed rate) to weekly payments, and divided by 20. As Table 3 illustrates, the per child per week payment would vary depending on the interest rate and the terms of the loan. It would range between $8.50 and $12.10 for a $90,000 loan. The average per child payment would be approximately $9.00 per week.

Construction

The costs for new construction are higher than those for renovation. ACD estimates $85 per square foot for new construction.[24] Based on 100 square feet per child, total classroom costs would range from $127,000 to $170,000 for a classroom for 15

TABLE 3

Weekly Cost Per Child for Daycare Rehabilitation

Length of Mortgage	Rate of Mortgage 7.75	8.0	8.25	8.50	8.75	9.00
15 years:						
Cost per class*	10.09	10.24	10.39	10.55	10.71	10.87
Cost per $10,000	1.12	1.14	1.15	1.17	1.19	1.21
20 years:						
Cost per class	8.80	8.96	9.13	9.30	9.47	9.64
Cost per $10,000	.98	1.00	1.01	1.03	1.05	1.07
30 years:						
Cost per class	7.68	7.86	8.05	8.24	8.43	8.62
Cost per $10,000	.85	.87	.89	.92	.94	.96

---

* Gut rehab cost is $90,000 per room. This is based on two-class center, and includes allocated costs of bathrooms, halls, teacher room, etc. This is the figure currently being used by ACD; they use the same per class figure for larger centers. There are 20 children per room. Cost for purchase or lease of space is excluded.

SOURCE: Child Care, Inc. calculations based on mortgage rates.

to 20 children. This includes the 35 square feet mandated by the Health Department as well as space for kitchens, hallways and other common space. The financing cost for new construction, then, would range from $13 to $17 per child per week.

Rent/Mortgage

These costs do not include the lease or the purchase of space. Rent or mortgage payments would have to be added to renovation or construction costs to determine the total occupancy cost. Table 4 shows some representative rents for different areas of New York City based on 1987 averages listed in the Space Bank of the New York Office of Business Development. We have calculated these costs on a weekly per child basis. The range of these payments is wide (Table 5). It varies from $6.66 to $32.69.

Together, these tables provide a picture of the total weekly occupancy cost for renovating rented space. At current estimates, the cost per child would fall between $15.66 and $17.65 per child. An increase in rent or renovation expenses would increase these costs considerably. For example, if renovation costs were $112,000, 25% more than current estimates, and rents were mid-range ($13.00 per square foot), the total would be approximately $30 per child per week.

Occupancy costs for purchased space would have to include mortgage payments as well as renovation costs. These can also be translated into per child per week costs, but we have not attempted

TABLE 4

AVERAGE COST OF SPACE
END OF 1987

	BROOKLYN	BRONX	QUEENS	STATEN ISLAND	MANHATTAN
Commercial Space:* (excludes retail)					
Rent	$13.00	15.00	14.75	15.00	17.50
Purchase	47.00	31.50	20.00	NA	241.00
Industrial Space (Manu. & Warehouse)					
Rent	4.50	4.30	6.75	6.00	9.30
Purchase	44.00	32.00	67.90	49.00	70.00

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* These listings exclude higher priced space (generally more than $25 per square foot).

SOURCE: The Space Bank, New York City Office of Business Development.

TABLE 5

Transferring Reported Cost of Space to Weekly Occupancy Costs for Smaller[1] and Larger[2] Space

Cost of Space	Smaller Space		Larger Space	
(Annual rent or purchase) per sq'	Cost/child	Weekly Cost/Child	Cost/Child	Weekly Cost/child
$4.50	$ 346.50	$ 6.66	$ 450.00	$ 8.65
6.50	500.50	9.62	650.00	12.50
8.50	654.50	12.59	850.00	16.35
13.00	1,001.00	19.25	1,300.00	25.00
15.00	1,155.00	22.21	1,500.00	28.85
17.00	1,309.00	25.17	1,700.00	32.69

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[1] Smaller space assumes 35 square feet per child sith 2.0 square feet as the factor for public space and a 10% loss factor from raw to usable space. Thus, 35 x 2 x 1.1 = 77 square feet.

[2] Assumes a total (class & ancillary areas) of 100 square feet per child.

to estimate them here because there was not a large enough sample of reported sales prices.

II. State Reimbursement

How will day care centers pay for these spaces? The centers that are publicly subsidized depend on the City for reimbursement for occupancy costs. The City contracts with the center to provide spaces for children who are eligible for publicly funded day care. In most cases, the City purchases all of the space in the program, and the center is fully funded by the City. In others, the Limited Purchase of Service Programs (LPOS), the City purchases a limited number of spaces, generally fewer than 50%. The City also uses vouchers for families to purchase spaces in private programs, although the number is small.

The City pays the center for the cost of care on a per child per week basis for operating costs -- salaries, rent, equipment -- for which it is reimbursed by the State. This reimbursement rate is $109.25 per child per week.[25] However, the State places a ceiling on reimbursements for the occupancy cost, which covers rent or mortgage payments.

The current ceiling is $18.00 per child per week.[26] The State will not reimburse the City for occupancy costs that exceed this ceiling. In programs where the occupancy costs are higher than the reimbursement rate, the City covers the difference with City tax

levy funds. The City administration, however, is reluctant to do this across the board.

III. Summary

It is clear that there is a need to renovate or build new space for day care in New York City. Yet existing physical space is not available. Subsidized programs that provide a large share of day care depend on the occupancy rate to cover their rent, but the current rate is too low for many programs. Moreover, it may preclude the expansion of programs into new space that must be renovated or constructed. The current state reimbursement maximum of $18.00 per child per week can barely cover current renovation and rent costs. If these costs are higher, it will not be adequate.

Part Three:

Financing Options: Programs That Do Not Depend on Reimbursements

Fully funded publicly subsidized programs constitute the vast majority of licensed full-time programs for children under six. They rely on the City for reimbursement of their operating costs including the cost for space. What public funding options are available for renovating or constructing new space for day care?

In this part, we present a range of approaches that includes capital funding, loans for employers to create day care centers, tax linkages, incentives and abatements. The common feature of these programs is that day care centers would not have to assume direct responsibility for debt service for renovation or construction. The cost of creating new space, then, would not have a direct effect on center budgets.

I. Existing Programs

New York City Capital Budget Funds

In Fiscal Year 1988 (FY 88) the City Council and the Board of Estimate approved an authorization of $3.5 million for HRA's

capital budget for construction of day care centers.[27] Capital budget authorizations are unlike those in the expense budget because they carry over from one fiscal year to the next. Since it takes time to plan and complete capital items, the full amount of the authorization appears in the budget on an annual basis. Actual expenses are held against the authorization over time as the project progresses. The day care centers built with these funds will not have mortgages, because they will be financed out of capital borrowing.

ACD, the agency within HRA responsible for the new centers, developed plans for eight projects that will be completed by 1991.[28] Two are connected to Housing Preservation and Development (HPD) rehabilitation projects in the Bronx (Crotona Park North and Ogden Avenue). These are currently under construction. Five other Bronx projects -- Summit, Westchester, Southern Boulevard, Davidson Avenue, and Walton Avenue -- and one Manhattan project -- Lenox Avenue -- are in the design phase. There will be one center with eight classrooms; two centers with seven classrooms; and one center with five classrooms; three centers with three classrooms; and one center with two classrooms. ACD will continue to work with HPD to identify additional day care sites.

ACD estimated that the capital budget would provide funds from 35 to 50 classrooms that will serve 700 to 1000 children at an average cost of $90,000 per classroom.[29] (see Part Two: Costs) In

fact, it appears that the actual number of new classrooms supported by capital budget funds will exceed this number. According to HPD, the agency that will design the centers for ACD, there will be 38 new classrooms constructed by 1991. They will be able to serve 760 children at a capacity of 20 children per classroom.[30]

New York State Start-up Grants

In 1986, the New York State Legislature approved legislation for a grant program to start or expand day care centers and family day care homes. This was the first funding at the state level in more than a decade with the express purpose of expanding day care capacity. Maximum grants for day care centers were $30,000 for pre-school programs and $40,000 for infant care.[31]

The State Start-up Funds can be used for start-up or expansion costs, and they may cover facility preparation and initial staff costs. According to the State, low-income children should receive priority for these spaces. The legislation anticipated that applicants for State Start-up Funds would contact the local social services office to apply for funding to cover operating expenses.[32]

The first year's appropriation in 1987-88 was $3 million. Awards were announced in March, 1988. Grants were made to 16 centers in New York City, ten for community-based programs and six for homeless children. Combined, these programs could serve 519 children.[33]

Employer-Sponsored Child Care

In New York City, employers have provided support for child care in three principal ways: through contracts with child care resource and referral agencies to help their employees find child care; through dependent care assistance plans to help their employees pay for child care; and through contributions to not-for-profit organizations to help them expand the supply of family day care. There has been virtually no corporate support for on-site or near-site day care centers. There is only one center sponsored by a for-profit employer -- the Garment Industry Day Care Center of Chinatown for 84 children -- and it is a joint venture of the ILGWU, the Contractors' Association, and the City.[34]

By contrast, non-profit employers have demonstrated more interest in on-site or near-site centers for their employees. Four hospitals offer on-site day care; two others have begun to develop plans for their own centers. There has also been growing interest among public agencies in providing on-site center care. [35] In September, FedKids, a day care center built with support from the General Services Administration, opened for 38 children of federal employees in the Federal Building. Several city agencies, among them the Police Department, have begun to explore the possibility of opening centers for their own staff.[36]

There are several reasons for the low level of interest in on-site day care on the part of employers in New York City. Among these are rent, construction or renovation costs, liability costs, and the expense of providing a child care subsidy for a cross-section of employees.[37] Moreover, on-site or near-site child care in Manhattan may not be attractive for parents who would have to travel with their young children on public transportation from the outer boroughs.

State Loans for Employers: SAMBA

Since 1987, New York State has tried to encourage the provision of on-site day care by private employers through loans available from the Small and Medium-sized Business Administration (SAMBA) of the New York State Urban Development Corporation (UDC). Loans are available exclusively for manufacturing firms that employ 500 or fewer employees. A firm or a consortia of firms may borrow for site acquisition, construction or renovation for an on-site or near-site center.[38]

The maximum loan is 60% of the project costs, or $250,000, whichever is less. Interest rates cannot be lower than 3%, and the loan cannot be longer than 10 years. While specific rates have not yet been determined, SAMBA has made other loans for which it had similar guidelines at 5%.[39]

Although funds were appropriated in 1987, there have been no applications. Some experts suggest that the limits on the type and

size of the firms have discouraged interest in the program. Manufacturing firms do not necessarily employ large numbers of women with children; a firm of 500 employees is also not usually large enough to support a day care center. UDC and the State Department of Economic Development are now marketing the program more aggressively and hope to gain experience with its utilization.

Other New York State Loan Programs

The New York State Job Development Authority (JDA) is also a source of low-interest loans for for-profit corporations and, in some instances, not-for-profit corporations. The purpose of these loans is to stimulate economic development and job creation in the state. The loans generally have flexible interest rates that are offered at below market levels, and are designed primarily for manufacturing firms.

The JDA has recently broadened the scope of its loan programs to encourage on-site day care centers.[40] It offers loans or loan guarantees to eligible JDA corporations to build, renovate, or equip day care centers. Two other programs administered by UDC may provide loans to for-profit employers. The Minority Revolving Loan Fund may make low-interest below market rate loans for business development for minority or women-owned businesses. The Regional Economic Development Participation Program (REDPP) may make similar loans to for-profit providers who demonstrate that their projects will contribute to the stability of the region's workforce. Both

programs could provide loans for on-site and near-site day care centers.

MIFA

Massachusetts also has a program that encourages employers to borrow for on-site or nearby day care centers. It is administered by the Massachusetts Industrial Finance Agency (MIFA). Unlike New York's SAMBA loans, MIFA loans are available to a range of employers, including consortia of companies and non-profit organizations in Commercial Area Revitalization Districts. Eligible employers may borrow for purchase, renovation, construction, site planning and/or permanently-installed equipment of a day care facility. The maximum loan is $250,000 with a maturity of five years. Interest rates are comparable to Treasury securities -- a few percentage points below the market rates. A sponsor must include a minimum of 10% equity contribution or an equivalent commitment to support operating costs of the facility.[41]

MIFA set up the pilot program in 1986 with a $750,000 loan fund. By July, 1987, commitments had been made to five centers with three loans of approximately $25,000 each and two loans of $250,000 each. Three of these, including the two largest, were approved in late spring 1988.[42]

II. Potential Programs

Developer Tax/Linkage: The San Francisco Model

Linkage -- requiring real estate developers to provide certain amenities in the process of building -- is another mechanism that can be used to expand the supply of day care centers. One example of this concept is the San Francisco's Child Care Ordinance which serves as a model for proposed legislation in New York City. The San Francisco ordinance requires developers of new offices or hotels to set aside space for a day care center or to pay an in lieu fee.[43] Developments that involve a net addition of 50,000 or more square feet are subject to the ordinance. If the developers elect to provide the space, the minimum gross footage required is 3,000 square feet or 1% of the net additional square footage, whichever is greater. If the developers select the fee option, the fee is $1.00 per net additional square foot of office or hotel space. The fees are to be paid into an Affordable Child Care Fund to be administered by the Director of City Planning. There are six projects now in progress.[44]

The authors of the Ordinance deliberately slanted it to favor the Affordable Child Care Fund because San Francisco needs operating subsidies rather than day care spaces. One benefit of the Fund is that it has a great deal of flexibility. Thus, current

plans involve using more than half of the funds for vouchers in existing programs, and a lesser amount for construction of new sites.[45] The relative portions can vary as needs change. Planners believe that there could be an average of $400,000 per year available to the Fund in the future.

New York City Proposals:

The Affordable Child Care Fund

In 1988, City Councilmember Carolyn Maloney introduced a bill in the City Council (Intro. 1009) that includes the same requirements as the San Francisco Ordinance.[46] It requires developers of new office or hotel space to set aside a prescribed amount of space for day care or to pay a fee into a child care development fund.

The fund would be administered by the City Comptroller, and spent as determined by the City Council to build and/or subsidize fees for child care facilities. The fee would be $1 per square foot of new space. Since new office construction in New York can easily exceed one million square feet, the size of the fund could be considerable.

At hearings on the bill in December, 1988, there was strong opposition from the City administration as well as the Real Estate Board and other organizations. The future does not appear to be favorable.

Real Estate Tax Reductions

Another option for expanding space would be the reduction of real estate taxes. The extent to which such a tax credit would be an incentive for creating new day care spaces depends on current taxes. Day care centers that are housed in City-owned buildings or buildings that are owned by non-profits (Y's or churches) do not pay real estate taxes. Moreover, real estate taxes vary greatly for centers in privately owned buildings. Unless the reduction were considerable, it would not be an effective mechanism for day care space.

A tax abatement program might also be an incentive for employers to create day care space. In high rent areas, a reduction in the real estate tax might cover a significant share of the cost of building a center. For example, real estate taxes for new midtown offices range from $8.50 to $10 per square feet. For a 3000 square foot day care center, the tax reduction might be as high as $30,000 per year. But this incentive would have to be balanced against the cost of building the center and against the value of the foregone rental income.

Councilmember Maloney has introduced a bill (Intro. 996) that would exempt real estate taxes on a maximum of 6,000 square feet for the portion of a building that was used for day care. The City

must obtain State approval before it can enact the legislation. The City's Department of Finance has not studied the fiscal impact of this bill nor have hearings been requested.

Public - Private Financing

LISC and the Enterprise Foundation

Another possible financing option for day care space might be linkage to housing development that is financed by community development projects. These projects generally link public and private funding for rehabilitating housing for low and moderate income families. The community development corporation structures the financing for not-for-profit sponsors which rehabilitate and own the buildings. The not-for-profit sponsors might set aside space in the building for day care.

There are two large projects of this kind in New York City. The Local Initiatives Support Corporation (LISC) has arranged financing for rehabilitation of 1000 units of housing in a combined total of ten sites in Manhattan, the Bronx, and Brooklyn. Many of the projects have space for community rooms that might be used for day care. Although LISC financing could not be used specifically for rehabilitating the space for day care, LISC could arrange for loans for the building sponsor if there were assurances that space would be rented on a long-term basis. The Enterprise Foundation is also engaged in community development for low and moderate housing. It has arranged financing for not-for-profit sponsors to

rehabilitate 1000 units in the Bronx and Manhattan. Like LISC, it creates the financing package and provides direct financing to fill the gap between private and public sources of funds.

Housing New York

Housing New York refers to two initiatives -- the Koch Administration's ten year, $4.2 billion plan to increase the housing stock in New York City by 250,000 units, and to the creation of the Housing New York Corporation. The ten year plan is highly optimistic, because more than half of the funding is not secure. But the Housing New York Corporation (HNYC) is a reality. It was created in 1986 to borrow up to $400 million of surplus revenues from the Battery Park City Authority (BPC) for the construction of low and moderate income housing.[47]

HNYC was set up as a subsidiary of the New York City Housing Development Corporation. Its authorizing legislation is explicitly for housing, beginning with a legislative finding of a shortage of safe and affordable housing, and building on a memo of understanding between the Mayor and the Governor that Battery Park City's excess revenues should be used for housing.

In the fall of 1987, HNYC borrowed approximately $210 million to rehabilitate a total of 1,850 apartments at two sites, one in the Bronx and one in Harlem. The money flows through HPD's capital budget, and HPD oversees the projects as part of its Construction Management Program. The HNYC will most likely borrow the

additional $180 million within the next 12 months. HPD has already prepared RFP's for the two other sites, both in the Bronx, that will be built with these additional funds. Several of the ACD day care centers supported by capital budget funds will be built in these locations.

Day care centers might be built with BPC revenues in tandem with the housing created through the HNYC program. This would require a legislative change in the HNYC authorization, which would have to be enacted at the beginning of the 1989 legislative session if it were to affect the second set of sites under preparation.

At the close of 1987, BPC pledged another $600 million for new housing. If this were added to HNYC's borrowing authority and day care center construction were permitted, it would provide a large pool of funding for day care construction. For example, if only 1% were used for day care, the total would amount to $6 million, close to twice the amount in ACD's current capital budget.

III. Summary

We have identified five options for expanding space without creating direct debt service for day care centers. City capital funds are a feasible approach for creating new space for day care in City-owned buildings, but current authorizations will provide only 700 to 1000 spaces. State grants for start-up represent another approach, but these funds are small -- $30,000 -- less than half the cost of rehabilitating one classroom, and limited. Public

low-interest loans for private corporations are another possibility, as are tax incentives or linkage for private developers. The existing loan programs have not yet demonstrated a significant appeal to private industry, and there is resistance to tax changes in New York City. BPC funding for new day care center construction through HNYC represents an attractive possibility. It would generate considerable funds and would have the added advantage of wide flexibility.

Part Four:

Programs That Depend on State Reimbursements

In this section we examine options that use debt financing as a vehicle for raising the funds to expand day care facilities. We assume that bond financing for not-for-profit day care facilities would be tax-exempt.

Historically, tax-exempt bonds have had a large advantage over taxable bonds. Income from the bonds is tax-exempt which makes them attractive for the buyer. The bonds can be issued at a substantially lower rate than taxable bonds which makes them attractive for the issuer. As a result, tax-exempt bonds are a viable mechanism for financing infrastructure needs such as roads, bridges, and buildings that benefit the public.

In recent years, the difference between the yield on tax-exempt bonds and that of taxable bonds has narrowed for a variety of reasons including the reduction of personal income tax rates. At the same time, the 1986 Tax Reform Act and subsequent court decisions have restricted the types of projects that can be supported with tax-exempt bonds.[48] Day care centers operated by non-profit sponsors, however, continue to qualify for this kind of

borrowing.

Bond financing for centers raises questions about the source of revenues that will support the debt service. In general, day care centers depend on a combination of parents' fees and subsidies for income. Would these revenues provide enough security for bondholders?

The central issue is the availability of an identifiable revenue stream. A proposed bond financing program for residential care for handicapped or disabled children is an example of how such a financing mechanism might work. In 1988, the Capital Workgroup of the State Task Force on Children and Youth recommended a bond-financed capital program for much needed repair and expansion of voluntary agency youth residential facilities in New York State.[49] It suggested that debt service could be paid directly by the New York State Department of Social Service (DSS) or the State Education Department by a skim on the provider's reimbursement rates. In other words, DSS would recoup a specific amount of the per child costs for repayment of the bonds. At the same time, the Workgroup called for statewide mandated property rates to enable the State to recapture the capital funds.[50]

Bonds for day care centers could be financed in a similar way. In the following sections, we discuss two such programs -- the Youth Facilities Act and the Dormitory Authority. In Section III, we discuss a city-based program that depends on the State

reimbursements. In the final section, we discuss another model from Illinois.

I. Bond-Financed Facilities: Youth Facilities Act

There is a nearly 20-year-old program in New York State that was enacted explicitly to allow the State to borrow money for the creation of day care centers.[51] The program was established in 1969 as the Youth Facilities Act (YFA). Its name was later changed to the Community Facilities Act when it was expanded to include senior citizen centers. There were two key financial components to the law. First, it authorized the New York State Housing Finance Agency (HFA) to borrow up to $50 million to issue mortgages for non-profit sponsors of day care centers. Second, it established a reserve fund to guarantee payment of the mortgages. This fund, called the Youth Facilities Project Guarantee Fund, was required to have a balance equal to 10% of the amount of outstanding mortgages. The State initially appropriated $1 million for the Fund.

Twenty-four day care centers, including 13 in New York City, were built with a total mortgage commitment of $25 million.[52] As required by law, the reserve fund was $2.5 million. Some experts note that the YFA-built centers were generally built better at a lower cost than others. At the time, the occupancy cost per week per child averaged $7 compared to almost $20 for direct lease sites.

For a variety of reasons, many centers were unable to meet mortgage payments and the State had to hold most of the mortgages. In 1976, faced with large potential liabilities, the state legislature passed a law capping the reserve fund. This effectively precluded any new activity under YFA.

Close to half of the centers ultimately defaulted. The explicit loss to the State thus far ranges between $2 million and $3 million.[53] Payments are still being made to the State by programs on about $15 million in outstanding mortgages. Ten day care centers, of which five are in New York City, remain in the program. Nine have mortgages directly with HFA; one has a mortgage with the Bank of New York. At the end of 1987, four of the ten were in arrears with their mortgages, two with amounts less than $50,000 each, and two with close to $250,000.[54]

Some of the problems with the YFA are easy to identify. The law was passed at a time when it appeared that federal funds to support social services would remain at constant levels or would increase. At the time, the idea of using annual federal appropriations seemed a feasible approach for near-term capital projects. Bonds would be issued to provide mortgages for day care centers; the mortgages would be paid off out of the combined federal and state funding for day care subsidies for local programs. A reduction in funding would have a direct effect on centers' incomes, which would affect their capacity to make

mortgage payments.

This is essentially what happened.[55] During the 1975 New York City fiscal crisis, many centers lost their funding. After 1980, cuts in federal Title XX funds produced further reductions in funding statewide. Meanwhile, in mid-1975, reverberations from the fiscal crisis precluded long-term public borrowings. As a result, most of the mortgages had to be made with direct State appropriations. HFA had made some short-term tax exempt borrowings before mid-1975, but was unable to transfer them into long-term bonds.

State administrators also suggest that some of the site selection criteria contributed to the YFA's problems.[56] The financing was designed for centers that were sponsored by new grassroots organizations in low-income communities. In some cases, these were neighborhoods with declining populations. When the pool of eligible children shrank, some centers could not or would not enroll non-subsidized children who could pay full tuition which would cover the lost revenues. As the funding declined, some grassroots sponsors paid staff rather than their mortgages.

The consequence was that the State faced a large arrearage. It had a hard time foreclosing on the properties and selling them to recover its investment. The location of the centers in poor, declining neighborhoods meant that they had to be sold for less than they cost to build.[57]

Could the additional borrowing authority under YFA be used to support financing for day care? Many of those involved believe that the program could succeed if significant changes were made. The first would be to remove the existing cap on the reserve fund or to create a new cap. The other changes address the State's financial exposure, and the City's interest in ensuring space for day care.

From the State's point of view, the fundamental problem is the ability of the center to cover mortgage payments. It does not want to repeat its past experience. According to several sources, the Division Of the Budget will oppose any new version of the program unless it can be assured that the State will not have to absorb the full costs.[58]

New York City shares some of the State's concerns, but its primary interest is the continuity of day care in the community. It wants assurance that the sponsor will be able to maintain a viable program. If the program sponsor holds the mortgage, and there is a default, the space will no longer be available for day care.

The challenge here is two-fold. The first question concerns whether a bond issue will be attractive in the financial markets. This will depend, in large part, on an assured revenue stream. The second question is related to the source of the revenues and the State's own fiscal priorities. At the heart of both of those

issues is the question of how day care centers will repay their mortgages.

One way to assure that mortgage payments can be met is to obtain a multi-year commitment from the Department of Social Services for day care funding. Such a commitment would require that the State Department of Social Services would cover the mortgage payments through reimbursements for spaces in day care centers. This kind of arrangement was the basis of the YFA program which failed when federal funds declined and the State did not honor its agreements for the YFA-financed centers.

On the other hand, this approach has been used successfully to finance construction of buildings for other types of social services. One example is hospital borrowings. In March, 1987, HFA borrowed $300 million in Hospital Revenue Bonds for the New York State Medical Care Facilities Finance Agency, a public authority that issues bonds for hospital construction.[59] The principal security for the bonds is a service contract in which the State is obligated to pay the balance of principal and interest payments that are not covered by hospital revenues. The obligation is subject to annual appropriations: the Budget Director must request annual appropriations if they are needed to cover mortgage payments. Since the legislature cannot be obligated a priori to grant the request, the appropriation is not a legal obligation of the State, but the conditions of the service contract provide

considerable security. A similar approach could be used to finance day care center construction and renovation. The YFA could issue bonds that would be secured by annual appropriations for the reimbursement rate.

II. Bond-Financed Facilities: New York State Dormitory Authority

The New York State Dormitory Authority (NYSDA) is a public authority that was established 40 years ago to borrow funds to construct public and private higher education facilities. These include college dormitories and classrooms, research facilities, and dining halls.[60] Over the years, the Authority's jurisdiction has broadened to cover other types of buildings such as hospitals, courts, and facilities for the aged. The NYSDA is a large program with $5 billion in total outstanding indebtedness and over $300 million in annual interest payments.

Each Authority bond issue is secured separately from the others. Typically, the bonds are backed by a mortgage on the particular facility as well as a specific revenue stream.[61] The revenue streams vary widely. For example, the bonds for construction in private universities and colleges are backed by dorm fees or tuition. Debt service for City University of New York (CUNY) is paid with State or State/City appropriations for rent. If the necessary appropriations are not approved, the Authority would have the right to intercept CUNY operating funds to cover its bonds. The NYSDA's Court Facilities Program uses a different

mechanism. Communities that develop programs receive State aid, generated in part by an increase in court-related fees.

At present, the Dormitory Authority lacks the authority to borrow to construct day care centers. In the 1988 legislative session, Senators Masiello and Montgomery introduced a multifaceted child care bill (S.7524) that would empower the Authority to borrow for this purpose.[62] No assured revenue stream is identified to support the borrowing. The Authority has not been involved with this bill to date, and the bill itself is considered to be a long shot. Nonetheless, it illustrates that day care centers are the kinds of facilities that could be added to the Authority's jurisdiction.

There is also some discussion within DSS about the possibility of using Dormitory Authority funds for facilities for the handicapped. The security for the bonds would be based on a State authorization to pledge existing federal and state funds for reimbursement. The assurance of such funds is a prerequisite for establishing this kind of program.

From a relatively narrow marketing point of view, both the NYSDA and the HFA offer similar advantages. They are large, well-respected agencies that can sell tax-exempt securities. A major difference between the two is that the NYSDA has its own large construction arm, and is generally regarded as an agency that is capable of planning, borrowing and building various kinds of 24-

hour facilities.

The financial issues raised by a bond program under the NYSDA are the same as those related to borrowing under the HFA (via YFA). The central question remains. How will centers pay the mortgages? What will secure the revenues?

III. Leased Facilities

A long-term lease program would be one approach for providing space for day care without commitments for new construction or renovation. It could rely on leases with private landlords and would function like the direct lease program in New York City.

Unlike a construction program that requires an initial outlay of capital funds, a lease program allows for payment for the use of space over the life of the lease. While the full costs are not required at the outset, landlords will require some assurance that tenants can pay the rent over the full term of the lease, just as bondholders require assurance that bonds can be repaid. Thus, like bond financing, a lease program will require a multi-year funding commitment.

IV. Center-based Loan Fund/Illinois

In 1985, Illinois began a program that provided funds for day care centers to expand existing facilities. Like SAMBA and MIFA, this was a loan program. But unlike those programs, Illinois' was designed to ensure that facility expansion went hand in hand with

increased operating revenues.[63]

The project was jointly supported by the Chicago Community Trust, a private foundation; the Illinois Department of Children and Family Services, the State day care funding agency; and the Day Care Action Council, the local child care resource and referral agency. The Chicago Community Trust provided loans for capital improvement and/or expansion. The State increased the centers' rate of reimbursement sufficiently to repay the loans. And the Day Care Action Council provided technical assistance.

To be eligible for the Trust's loans, the centers had to be incorporated as not-for-profit agencies and had to own their facility or rent from another non-profit.[64] The maximum loan was $50,000 per project, with an interest rate of 3% and a five-to seven-year payback period. At least 50% of the increased capacity was to be allocated for children who were eligible for publicly funded day care.

In 1986, the State approved funding for eleven centers with a combined total of 292 new spaces. Together, these centers received $381,000 in loans. The program was not extended for a second year because the State reduced funding for day care.

V. Summary

In Part Four we have described several programs that provide funds for expansion of day care through bond issues or leasing. In each of them, there must be assurances that the centers will have an adequate revenue stream to pay mortgages, loans or leases. In practical terms, this will require a multi-year funding commitment for State appropriations for day care. The weakness of such an approach is exemplified in the Illinois program which was discontinued when State funding declined.

Is it appropriate for day care centers to have to repay mortgages out of normal revenues? The profit-making model in which the physical plant is paid for out of profits -- future profits financed with borrowed funds or past profits reinvested -- does not fit for institutions such as day care centers. A not-for-profit center is not going to benefit from capital appreciation of its building, should that occur; nor does it obtain tax advantages from capital investments. For educational facilities in general, operating expenses are separate from capital expenses. In public schools, both are provided out of public appropriations; private schools and universities usually have endowments for capital expenses. Is there a comparable vehicle for day care?

Part Five:

Recommendations

Lack of funds for the construction and renovation of new child care facilities is a major barrier to the expansion of child care services in New York City. As in so many areas of the City's human services infrastructure, the scale of the problem is staggering: at least 5,000 additional classrooms are needed to meet current demand.

In view of the magnitude of the problem, and the limited public resources available to address it, we do not recommend any single all-encompassing solution to meet the need for space. Instead, we recommend several policy initiatives, each limited in scope but within reach of current resources. Together, these initiatives could have a substantial impact on the creation of new facilities for child care.

In making these recommendations, we have generally rejected approaches that depend for their long-term financing on day care subsidies for low-income families. Such approaches rely on a substantial increase in day care subsidies to cover the cost of construction loans as well as sustained levels of public funding

for day care. While both objectives are important, they will be difficult to achieve.

The unfortunate history of the Youth Facilities Act state-wide also militates against such an approach. Nonetheless, several centers that were built with bond-financing have continued to provide day care, and bond-financing has succeeded in other social service areas. If multi-year funding could be guaranteed, we believe that this option might be effective.

Child Care, Inc., therefore, makes the following specific recommendations:

1. **Appropriate an additional $3.5 million in the City capital budget.**

   One solid success in building new facilities has been based on the allocation of $3.5 million in the City's capital budget for day care construction. We recommend that the City renew this funding and appropriate an additional $3.5 million for this purpose. This would provide between 35 and 70 new classrooms, sufficient for seven to fourteen new centers, with spaces for 700 to 1400 additional children.

2. **Set aside one half of any new day care start-up funds from the State for major construction projects.**

   In SFY 1989, the State made $3 million for start-up grants for new or expanded day care programs available

to community groups. The grant ceiling was too low for major construction. We recommend that if the funds are made available again in SFY 1990 or SFY 1991, one half of the total, $1.5 million, should be available for construction and renovation grants of up to $100,000 per classroom.

At a cost ranging from $50,000 to $100,000 per classroom, this would provide 15 to 30 new classrooms, in approximately 3 to 6 new centers, that would serve a total of 300 to 600 additional children. About half of these would be in New York City.

3. **Permit future increases in State operating subsidies for day care to be used for construction costs during the first year of their allocation.**

Since 1983, the state legislature has approved increases in programs that provide day care subsidies for low-income families, teen parents, and welfare recipients who find employment. It is likely that the level of funding will continue to grow as the State responds to the rising need for child care. These funds can only be used to pay the cost of care. They cannot be used to offset the start-up costs associated with the physical expansion of the day care system -- the costs of constructing facilities to accommodate additional children. This was one of the several reasons why

many localities in New York State, including New York City, were unable to expend the increased allocations.

We recommend that localities be permitted to expend the funds for construction of facilities during the first year's allocation of increases in day care subsidies. Between SFY 1988 and SFY 1989, funds for these programs increased by $1.5 million, of which $500,000 was allocated to New York City. If the City chose to use half of these funds for construction costs, this would provide between two and five new classrooms, for 40 to 100 additional children.

To persuade state officials and legislators to implement Recommendations #2 and #3, Child Care, Inc. believes that the City must demonstrate that it has taken full advantage of available means to expand subsidized day care capacity. These would include the use of vouchers for family day care in addition to center care and an effort to expand the publicly subsidized family day care system.

4. **Improve the marketing and the terms of New York State Urban Development Corporation small business loans with a goal of making ten loans for day care centers in SFY 1990.**

The New York State Urban Development Corporation seems eager to strengthen the marketing of its Small and Medium-sized Business Assistance (SAMBA) loans for employers to build work-site day care centers, and to

modify terms of the loans if that will enhance their appeal. Based on Massachusetts' experience with a somewhat more attractive loan program, we suggest a goal of ten loans in FY 1990. This would provide between 25 and 50 classrooms that would serve about 500 to 1000 additional children. Approximately half of the classrooms would be in New York City.

5. **Encourage non-profit housing developers that are financed by LISC and the Enterprise Foundation to include child care facilities, supported by direct leases, in their new projects.**

Non-profit housing groups play a major role in the development of new low-income housing in the city, and they have expressed a desire to incorporate child care facilities into the new construction. But most of their funding sources are restricted to housing construction. A multi-year revenue commitment from the City or the State might facilitate the financing for this new space for day care.

We recommend that the City use the direct lease mechanism in this limited context to provide the groups with funds to expand the supply of care. The process would consist of three steps: the City would offer a twenty-year lease on the space at a rent sufficient to amortize the construction cost; the housing group would use the City lease to secure construction

financing; and the City would then "sublet" the finished space to a subsidized day care program at a reasonable rent.

6. **Request that 1/2 of 1% of the new Housing New York Funds from the Battery Park City Authority be earmarked for development of child care facilities in association with the new housing.**

The Battery Park City Authority is scheduled to make available an additional $600 million to the City's Housing New York project for the construction of low-and moderate-income housing. We recommend that one half of one percent of those funds -- $3 million -- be set aside for construction of child care facilities in conjunction with the housing.

The $3 million would allow construction of 30 to 60 new classrooms, sufficient to serve 600 to 1200 additional children in communities where there will be a substantial increase in the number of families with young children.

7. **Create a tax similar to the policy now in effect in parts of downtown San Francisco, on developers of new commercial properties in designated areas of Manhattan, or create incentives for developers to provide day care space.**

San Francisco has had considerable success with a child care tax on developers of new commercial

properties: one new day care site has been provided, and developers have agreed to pay $400,000 to the city's Affordable Child Care Fund, which may also be used for construction. We therefore recommend the passage of City Council Intro.1009, introduced by Councilmember Maloney, which would establish such a program here.

Because the City administration, the Chamber of Commerce, and the Real Estate Board have expressed their opposition to any such tax on developers, we do not expect action on this in the near future. We recommend instead that representatives from the corporate sector, real estate, the day care community, and the City administration create a committee to explore approaches that would rely on incentives rather than exactions, a more feasible option for New York.

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NOTES

1. Community District Statistics: A Portrait of New York City from the 1980 Census, New York City Department of City Planning, June 1984.

2. "Capital Needs and Priorities", 1986 Capital Needs Statement, New York City Department of City Planning, 1986.

3. The New York State Council of Children and Families made a census-based count of the demand for child care in 1980 State of the Child, (New York State Council on Children and Families, 1988, Chapter 4). They assumed that there was a demand for child care if the parent or parents were working, looking for work, or studying in an educational program, but they excluded children in households where there are other adults who are not working or not in school, on the assumption that these adults may be available to care for the children. They counted approximately 133,000 children in 1980 for whom there was a demand for child care, close to ACD's 1980 estimate of 136,000 children.

4. "Needs Assessment for Public Day Care, 1987-1990", Agency for Child Development, Research and Analysis Unit, September, 1987.

5. Ibid.

6. "Fertility of American Woman", Bureau of the Census, Current Population Reports, Series P-20, 40, 427. Between 1980 and 1987, for example, the national labor force participation rate for women with children under six rose from 41.5% to 56.8% . New York City has historically had a lower labor force participation for women than the country as a whole. In 1980, it was 33.2%, 80% of the national rate. Unfortunately, data are not available for 1987. If the ratio between New York and national rates has remained the same, however, the percentage of women in the workforce with young children would have increased accordingly. In 1987, it would have been approximately 45.4%. Likewise, the number of children in need of care would have risen.

7. A Child Care Primer, Child Care, Inc., 1988 in publication.

8. Calculations by Child Care, Inc., 1988.

9. "Need Assessment", op. cit.

10. Ibid.

11. Ibid.

12. "School Utilization Profile", Division of School Buildings, Board of Education, May, 1988. This excess capacity, however, does not indicate that there may be space for day care, because it represents extra room in a full-time classroom rather than single vacant room. Moreover, this space cannot necessarily be used for early childhood programs that must comply with the Department of Health's physical requirements for space for young children.

13. 1988-1989 Budget Request, New York City Board of Education, 1987 and conversation with Marisa Wohl, Mayor's Office of Early Childhood Education, June 1988.

14. Conversation with Amy Linden, Board of Education, June, 1988, and Report of the Board of Education Task Force on Capital Construction, 1988.

15. Report of the Board of Education Task Force on Capital Construction, op. cit.

16. Internal survey by Child Care, Inc., August, 1988.

17. New York Times, "For Day Care Centers, Schools Close Doors", July 12, 1988.

18. Calculations by Child Care, Inc.

19. Conversation with Wayne Goldberg, Agency for Child Development, May, 1988.

20. Conversation with Bob Rich, Office of Management and Budget, May, 1988.

21. Conversation with Paul Larsen, Agency for Child Development, May, 1988. This covers the cost for gut rehabilitation of raw space including systems such as plumbing, wiring, and kitchens.

22. Interest rates on commonly quoted tax-exempt issues such as MAC, Dormitory Authority, and New York State Power Authority ranged from 7.92% (2013) to 8.29% (2022), August, 1988.

23. Most of the ACD leases for space are for 15 years; the period of probable usefulness for day care centers for capital funding is 15 years.

24. Conversation with Paul Larsen, August, 1988.

25. The state reimbursement rate rose to $109.25 per child per week in July, 1988. Ibid, and Department of Social Services regulations, Chapter II, S.S. 415.6.

26. The occupancy rate remains the same. Conversation with Acquennetta Russell, ACD, August, 1988.

27. Capital Budget of the City of New York, FY 1987-1988.

28. Conversation with Eileen Popkin, HPD, December 1988.

29. Conversations with Paul Larsen and Wayne Goldberg, August, 1988.

30. Conversation with Eileen Popkin, HPD, December, 1988.

31. New York State Department of Social Services, Request for Proposals for State Start-up Funds, July, 1987.

32. Ibid.

33. Child Care, Inc. unpublished data.

34. Child Care, Inc. unpublished data.

35. Interview with Nancy Kolben, Child Care, Inc., August, 1988.

36. Ibid.

37. Ibid.

38. Executive Budget, State of New York, April 1987 - March, 1988.

39. Conversation with representatives of UDC, December, 1987.

40. Correspondence with Anne Skhuda, New York State Department of Economic Development, December, 1988.

41. Correspondence with the Massachusetts Industrial Finance Agency, June, 1988.

42. Ibid.

43. Ibid.

44. San Francisco Child Care Ordinance, July, 1985.

45. Conversation with Abby Cohen, Child Care Law Center, July, 1988.

46. Ibid.

47. Councilwoman Carolyn B. Maloney, City Council Bill (Intro. 1009), April, 1988.

48. Evaluation of Housing New York, Settlement Housing Fund, 1988.

49. Restrictions are limited in the housing area. See Evaluation of Housing New York, op. cit.

50. Capital Workgroup on Residential Facilities, Recommendations, July, 1988.

51. Ibid.

52. Annual Report of The New York State Community Facilities Fund, 1982.

53. The State's share was $19 million.

54. Annual Report, op. cit.

55. Ibid.

56. Conversations with Alan Pfeffer, Community Facilities Guarantee Fund; Charles Brown, New York State Department of Social Services; and Dennis Zeller, New York State Department of Social Services.

57. Ibid.

58. One center was built at a cost of $700,000; it defaulted and was eventually sold for $50,000.

59. Ibid.

60. Offering statement of the New York State Medical Care Facilities Financing Agency.

61. 1986-1987 Annual Report of the New York State Dormitory Authority of the State of New York.

62. In addition, there may be municipal bond insurance or pledges of other security as other collateral.

63. The bill's main purpose is to establish a child care salary reduction plan that allows employees to receive a portion of untaxed compensation in the form of reimbursement for child care expenses. Prior to reimbursement, the untaxed compensation would be placed into a special fund, which would also include any interest earned and additional fees charged to "participants" (the employee-parents). The fund would be used for loans and grants for on-site daycare centers, and might also be used in conjunction with, or to support, Dormitory Authority borrowings. A brief fiscal review of the bill by the Division of the Budget (called "Fiscal Note Request") suggests that the state would save money because it would not owe social security tax (FICA) on the compensation set aside, but would lose an approximately equal amount in reduced income tax revenue. The Division of the Budget does not raise the question as to whether the fund balance would be large enough to make loans of any substantial amount, if parents' child care expenses are reimbursed in a timely manner.

64. Request for proposals, Trust/DCFS Joint Facilities Project, June, 1985, and conversation with Marie Svihla, Day Care Action Council of Illinois, March, 1988.

APPENDIX

APPENDIX 1

In June 1982, a Census Bureau survey asked nonworking mothers with preschool children if they would look for work if child care were available at a "reasonable cost". Of this group, 26% said they would [1]. Of all mothers with preschool children, approximately half are not in the labor force and half are in the labor force (either working or actively looking for work). If this percentage is applied to the share of women with pre-school children who are already in the labor force, it represents an addition of 13%. The result is a "potential" labor free participation rate of 62% for mothers with preschool children.

Aside from the usual reservations about the accuracy of responses to this kind of survey question, these survey results may have upward bias, because it was conducted in June 1982 during a downturn in the business cycle. The higher-than-normal unemployment may have affected the responses, and resulted in overstatements.

A similar question ("Would you work if reasonable child care were available?") was asked in 1982, 1983 and 1984 in a geographically balanced ssurvey that was not balanced for age.[2] When the responses of this group are standardized for age, the results are close to the Census Bureau study.

APPENDIX 2

Project Giant Step

PGS is a three hour early childhood program for four-year-olds which is provided in the public schools as well as day care centers and Head Start programs. It provides some daytime coverage for children, but not the full day care needed by working parents. PGS was originally intended to offer an equal number of spaces in public schools, day care centers, and Head Start, but the ACD programs have difficulty finding space.

By March, 1988, the total PGS capacity was 5,000, of which 4,210 spaces were offered in the public schools and 880 spaces were offered in day care centers and Headstart.[3] In June, 1988, the City provided additional funding for the program, primarily for new spaces in the Board. It is expected that there will be a total of 9,280 children in 1988-89, 5,620 in Board of Ed classes and the remainder in ACD classes.[4]

LYFE

"LYFE" is a small program in the public high schools that provides school-based, school-day (six hour) day care for young mothers who would otherwise not complete their high school education. There are currently 21 centers which serve approximately 300 infants and toddlers. Nine additional sites were planned for 1987-1988, but they did not open because the

program failed to find space.[5]

The Board is willing to support the continued expansion of the program but it is hobbled by the lack of available space and the time required to prepare the classrooms. Capital funding is not a problem because the Board pays for site preparation through its expense budget.[6] Current cost estimates for site renovation for a 20-child LYFE center are $20,000, significantly less than renovation costs for other day care centers, in part as a result of their location in schools.

1. O'Connell and Bloom, "Juggling Jobs and Babies" (Pop. Ref. Bureau, 1987).

2. National Longitudinal Survey youth cohort (those age 14-21 in 1979). Of women not in the labor force with children, 35%-40% said they would work if reasonable child care were available. When this younger group is standardized for age, the response is close to the 26% found in the CPS study.

3. "Advocates' Report on Project Giant Step, 1987-1988", Pre-K Alliance, May, 1988.

4. Executive Budget of the Mayor, City of New York, May 1988.

5. 1988-1989 Budget Request, New York City Board of Education, 1987.

6. Ibid.

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NEW DAY CARE SPACE

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